ARLINGTON COUNTY, VIRGINIA

County Board Agenda Item
Meeting of October 24, 2009

DATE: **October 6, 2009**

SUBJECT: Advertise amendments to Chapters 21, 35 and 46 of the Arlington County Code.

C. M. RECOMMENDATION:

Advertise for a public hearing on November 14, 2009 on the proposed amendments to Chapters 21, 35 and 46 (Retirement System) of the Arlington County Code.

ISSUES: As part of the regular process, this is a request for authorization to advertise a public hearing for the November 14, 2009 meeting. There are no known issues.

SUMMARY: The proposed amendments provide the following:

1. Authorize the County Manager, based on business necessity, to create an early retirement buy-out option for Chapters 21, 35 and 46.
2. Authorize the County Manager to create an option for Chapter 46 employees to participate in a deferred compensation plan in lieu of the Chapter 46 Defined Benefit Retirement Plan.
3. Provides that Chapter 46 employees who work part of their career as a public safety employee and part of their career as a general employee will receive a retirement allowance that recognizes their dual service to the County.
4. Amends Chapter 46 to provide an option to employees who were vested as of April 18, 2008 to choose the prior retirement allowance calculation using their final average salary as of January 3, 2009.
5. Permits elected officials to join the retirement system at any time and to buy back service with interest.

BACKGROUND: This set of amendments to the Retirement Ordinance provide flexibility to meet current and emerging issues: Recommendations 1 and 2. They also provide "clean up" amendments to correct unintended consequences from previous actions" Recommendations 3 and 4. Each recommendation is explained below.

County Manager: RCl/CMD

County Attorney: AT/SAM

Staff: Marcy Foster, Human Resources

30.

DISCUSSION: The first amendment impacts Chapters 21, 35 and 46 of the County Code and provides the County Manager with the authority to create an early retirement program based on business necessity to reduce the workforce. Given the current economic conditions, it may be necessary for the County to reduce the workforce. Providing an enhanced benefit for a limited period of time may provide an incentive for employees to voluntarily retire thus reducing the need to involuntarily layoff employees. This is a common practice in organizations with pension plans and the option would be designed to have a nominal financial impact to the Retirement System.

The second amendment provides flexibility for the County Manager to develop a deferred compensation plan that would be in lieu of the defined benefit plan. The new plan would have to meet State requirements and would need to be cost neutral to the County. The purpose of such plan is to attract employees that may not work for a single employer their entire career. A sizable portion of our newly recruited employees tend to come from the private sector or are coming to the County as a second career where a defined benefit plan has little value.

The third amendment applies to relatively few employees who may work in both a public safety position and as a general employee. The amendment provides a retirement benefit that is calculated by applying the employee's years of service as a general employee to the general employee formula and employee's years of service as a public safety employee to the public safety formula. This provides a benefit that is more reflective of the employee's true employment and allows employees to move back and forth between general and public safety status to better meet the needs of the County.

The fourth amendment provides an option for Chapter 46 employees who were vested as of April 18, 2008 to receive a retirement allowance calculated using their final average salary as of January 3, 2009 using the former definition of creditable compensation, the prior retirement allowance formula and their total years of service. The changes made to the retirement system in January 2009, potentially has an adverse impact on approximately fifty employees. The longer these employees remain with the County, the impact lessens. This amendment ensures that no employees are adversely impacted by the changes made earlier this year to the retirement system.

The fifth amendment corrects an oversight that occurred in 2001. When the window to join the System was available, Board members were not offered the option to buy back their prior service. Elected officials are the only County employees who are given the option of <u>not</u> participating in the retirement system. This amendment provides that elected officials who initially opt out of the system may subsequently join the system and may buy back participation with interest.

FISCAL IMPACT: The early retirement recommendation is estimated to cost $100,000 to $200,000 a year, but would be off-set by substantial salary savings if the positions held by the retiring employees are not filled. Recommendations 2 and 3 have no measurable costs. Recommendation 4 is estimated to cost between $30,000 and $60,000. Actuarial statements are attached.

AN ORDINANCE TO AMEND, REENACT AND RECODIFY CHAPTER 21 (RETIREMENT ORDINANCES) OF THE ARLINGTON COUNTY CODE.
BE IT ORDAINED that the Arlington County Code is amended, reenacted and recodified as follows:

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§ 21-41. Service Retirement
(c) Service Retirement – Special Conditions.
The County Manager may, once every fiscal year for period of time not to exceed sixty (60) days, offer to: 1) general employees whose age plus service equals or exceeds seventy-eight (78), and 2) public safety employees who are fifty (50) or more years old and have completed five (5) years of service or have completed twenty-three (23) years of service, regardless of age, service credit for an additional one (1) year of service and/or an additional one (1) year of age, provided the employee submits an application for retirement within the timeframe prescribed by the County Manager.

The County Manager may do so only after the Manager determines that there is a business necessity to reduce the workforce for budgetary reasons.

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AN ORDINANCE TO AMEND, REENACT AND RECODIFY CHAPTER 35 (RETIREMENT ORDINANCES) OF THE ARLINGTON COUNTY CODE.
BE IT ORDAINED that the Arlington County Code is amended, reenacted and recodified as follows:

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§ 35-36. Service Retirement
(d) Service Retirement – Special Conditions.
The County Manager may, once every fiscal year for period of time not to exceed sixty (60) days, offer to: 1) general employees whose age plus service equals or exceeds seventy-eight (78), and 2) public safety employees who are fifty (50) or more years old and have completed five (5) years of service or have completed twenty-three (23) years of service, regardless of age, service credit for an additional one (1) year of service and/or an additional one (1) year of age, provided the employee submits an application for retirement within the timeframe prescribed by the County Manager.

The County Manager may do so only after the Manager determines that there is a business necessity to reduce the workforce for budgetary reasons.

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AN ORDINANCE TO AMEND, REENACT AND RECODIFY CHAPTER 46 (RETIREMENT ORDINANCES) OF THE ARLINGTON COUNTY CODE.

BE IT ORDAINED that the Arlington County Code is amended, reenacted and recodified as follows:

§ 46-1. Definitions.

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(s) *General Member* means a member who is employed by the Employer not as a Public Safety Member.

(t) *Medical advisor* means the physician provided for by Section 46-21.

(u) *Member* means any person included in the membership of the System as provided in Section 46-27 who has not ceased to be a member as provided in Section 46-28.

(v) *Membership service* means service as a member for which credit is allowable as provided in Section 46-29.

(w) *Normal cost* means the actuarially determined amount under the aggregate accrual modification of the entry age normal funding method needed to fund for one (1) plan year the retirement benefits of the plan.

(x) *Normal retirement date* means the date of attainment of age sixty-two (62) with the ompletion of five (5) years of service of a member who is not a police officer, firefighter, or deputy sheriff, and the date of attainment of age fifty-two (52) with the completion of five (5) years of service of a member who is a police officer, firefighter, or deputy sheriff.

(y) *Part-time employee* means any person working less than forty (40) hours per week, having permanent status or in a probationary period for such status, who is:

(1) Rendering service to the County Board in a budgeted position;

(2) An employee of a constitutional officer in a budgeted position; or

(3) A trades and maintenance employee of the School Board paid from a regular position controlled account.

(z) *Party in interest* means:

(1) A fiduciary (including, but not limited to, any administrator, officer, trustee, or custodian), counsel, or employee of the System);

(2) A person, partnership, joint venture, corporation, mutual company, joint-stock company, trust, estate, unincorporated organization, association, or employee organization providing services to the System;

(3) An employer, any of whose employees are covered by the System;

(4) An employee organization, any of whose members are covered by the System;

(5) A spouse, ancestor, lineal descendant or spouse of a lineal descendant of any individual described in Subparagraphs (1), (2), or (3).

(aa) *Public Safety Member* means a member who is employed by the Employer as a police officer, firefighter, deputy sheriff or sheriff.

(bb) *Retiree* means any prior member or beneficiary who is receiving a retirement payment, or has elected to receive a deferred vested retirement allowance.

(cc) *Retirement allowance* means the retirement payments to which a member is entitled.

(dd) *Service* means service as an employee for which compensation is paid by the employer, periods of time while on military leave, not to exceed five (5) cumulative years, or an approved leave of absence.

(ee) *Statement of retirement policies and principles* means a statement adopted by the County Board which contains a description of the objectives and policies of the System concerning retirement benefits, benefit levels, funding and investments.

(ff) *System* means the Arlington County Employees' Supplemental Retirement System--II.

(gg) *V.R.S.* means the Virginia Retirement System established pursuant to Section 51.1-124.1 et seq., Code of Virginia, 1950, as amended.

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§ 46-27. Eligibility requirements.

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(a) Except for employees who are covered by section 46-44(h) and persons appointed as county manager who elect not to become members within sixty (60) days after appointment, employees of the county board hired after February 8, 1981, who have not reached normal retirement age (age sixty-two (62)), or in the case of police officers, firefighters, and deputy sheriffs, age fifty-two (52) as of the first day of employment, and all employees of the school board hired after February 8, 1981, and before July 1, 2001, who have not reached normal retirement age (age sixty-two (62)) are members of the system. Notwithstanding the foregoing, retirement benefits under this Chapter shall not be provided to employees who have entered into an agreement for inclusion in a deferred compensation plan when the agreement prohibits inclusion in any other retirement system established by the county, pursuant Virginia Code 51.1-800(d). Notwithstanding the foregoing, there shall be no age restrictions on membership for persons hired on or after January 1, 1991. Employees who did not meet the eligibility requirements related to age at the time of hire shall have the option to join the system and elect to purchase service credit for service back to January 1, 1991. Such election must be made by December, 1991.

(b) Subsection (a) includes all officials elected by the people who are paid directly or indirectly by the county, provided they elect to become members within sixty (60) days after assuming office. Notwithstanding the foregoing, any such official otherwise eligible for membership may elect to become a member ~~between January 3, 2001 and January 31, 2001.~~ and may buy service credit for any part of the period under which they held office. ~~No service credit shall be allowed for any service prior to such officials' election to become a member, whether purchased or not.~~

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§ 46-31. Membership service credit.

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(b) An employee who becomes a member after re-employment and after having withdrawn the accumulated contributions contributed during his prior membership may re-establish his membership service credit for the period of his prior membership as follows:

(1) If such employee were a former member of this system, by repayment to the system of the amount of his withdrawn accumulated contributions, with interest at the rate of six (6) percent per annum from the date of withdrawal, which shall be a lump sum payment.

(2) If such employee were a former member of the Arlington County Employees' Supplemental Retirement System (Chapter 21) or the Arlington County School Board Employees' Supplemental Retirement System (Chapter 35), by contributing to this system

the applicable employee contribution based upon the employee's compensation during the credit period sought and the contribution rate in effect for this system, with interest at the rate of six (6) percent per annum from the date of withdrawal, which shall be a lump sum payment.

(3) An official purchasing service pursuant to § 46-27 (b) shall pay their contributions plus interest at the rate of 6% per annum for each full calendar year in which the contributions were not assets of the fund. The payment shall be made in a lump sum.

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§ 46-37. Service Retirement

(c) Service Retirement – Special Conditions.

The County Manager may, once every fiscal year for a period of time not to exceed sixty (60) days, offer to: 1) general employees whose age plus service equals or exceeds seventy-eight (78), and 2) public safety employees who are fifty (50) or more years old and have completed five (5) years of service or have completed twenty-three (23) years of service, regardless of age, service credit for an additional one (1) year of service and/or an additional one (1) year of age, provided the employee submits an application for retirement within the timeframe prescribed by the County Manager..

The County Manager may do so only after the Manager determines that there is a business necessity to reduce the workforce for budgetary reasons.

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§ 46-38. Service retirement allowance; bridge allowance.

(a) Upon service retirement prior to January 4, 2009, a member who is a General Member shall receive an annual retirement allowance payable monthly to him for life which shall be equal to one and one-half (1 1/2) percent of the member's average final compensation using creditable compensation as defined prior to January 4, 2009, multiplied by the number of years of his creditable service, not to exceed thirty (30) years.

Upon service retirement or upon entering the DROP on or after January 4, 2009, a member who is a General Member shall irrevocably elect to receive an annual retirement allowance payable monthly to him for life which shall be equal to either:

(1) one and seven-tenths (1.7) percent of the member's average final compensation using creditable compensation as defined effective January 4, 2009 multiplied by the number of years of his creditable service; or

(2) their retirement allowance calculated as if they had ceased employment on January 3, 2009 for all years of creditable service up to January 3, 2009 plus a retirement allowance calculated by years of creditable service attained after January 4, 2009 multiplied by one and seven-tenths (1.7) percent of average final compensation using creditable compensation as defined as of January 4, 2009.

Upon service retirement after January 3, 2009, General Members who are vested as of April 19, 2008 may irrevocably elect to receive an annual retirement allowance payable monthly to him for life which shall be calculated by one of the above two formulas or equal to one and one-half (1.5) percent of the member's average final compensation calculated on January 3, 2009 multiplied by the total number of years of his creditable service.

Upon service retirement prior to January 4, 2009, a member who is a Public Safety Member shall receive an annual retirement allowance payable monthly to him for life which shall be equal to one and

one-half (1 1/2) percent of the member's average final compensation multiplied by the number of years of his creditable service from the first through the tenth year of service plus one and seven-tenths (1.7) percent of the member's average final compensation multiplied by the number of years of his creditable service from the eleventh through the twentieth year of service plus two (2) percent of the member's average final compensation multiplied by the number of years of his creditable service from the twenty-first through the thirtieth year of service. Average final compensation shall be calculated using compensation as defined prior to January 4, 2009.

Upon service retirement or upon entering the DROP on or after January 4, 2009, a member who is a Public Safety Member, shall irrevocably elect to receive an annual retirement allowance payable monthly to him for life which shall be equal to either:

(1) two and one-half (2.5) percent of the member's average final compensation using creditable compensation as defined effective January 4, 2009 multiplied by the number of years of his creditable service up to the pay period ending January 3, 2009, plus two and seven-tenths (2.7) percent of the member's average final compensation and using creditable compensation as defined effective January 4, 2009 multiplied by the number of years of his creditable service commencing after January 3, 2009; or

(2) their retirement allowance calculated as if they had ceased employment on January 3, 2009 for all years of creditable service up to January 3, 2009 plus a retirement allowance as calculated for years of creditable service attained on or after January 4, 2009 using two and seven-tenths (2.7) percent of final average compensation and using creditable compensation as defined as of January 4, 2009. The retirement allowance calculated as if they had ceased employment on January 3, 2009 shall include the annual bridge allowance defined in the paragraph below, while eligible to receive the bridge allowance.

Upon service retirement after January 3, 2009, Public Safety members who are vested as of April 19, 2008 may irrevocably elect to receive an annual retirement allowance payable monthly to him for life which shall be calculated by one of the above two formulas or equal to one and one-half (1.5) percent of the member's average final compensation as calculated on January 3, 2009 multiplied by the number of years of his creditable service from the 1st through the 10th year of service plus one and seven-tenths (1.7) percent of the member's average final compensation as calculated on January 3, 2009 multiplied by the number of years of his creditable service from the 11th through the 20th year of service plus two percent (2.0) of the member's average final compensation as calculated on January 3, 2009 multiplied by the number of years of his creditable service from the 21st through the 30th year of service. If utilizing the latter monthly allowance calculation, the bridge benefit described below will be the difference in annual retirement allowance between that above formula and two percent of the member's average final compensation as of January 3, 2009 multiplied by the total number of years of service, not to exceed thirty (30) years.

Upon service retirement, a member who is a Public Safety Member shall receive an annual bridge allowance, payable monthly to him until his Social Security normal retirement age as defined as of January 1, 2001 or at the early Social Security reduced benefit age if the member elects to receive Social Security at an early age. The bridge amount will be the difference between the allowance as calculated using the retirement allowance calculation in effect prior to January 4, 2009 and an allowance which shall be equal to two (2) percent of the member's average final compensation using creditable compensation as defined prior to January 4, 2009 multiplied by the number of years of his creditable service prior to January 4, 2009, not to exceed thirty (30) years. On or before May 1 of any year which follows the year a retiree receiving a bridge benefit attains the age of sixty-two (62), the retiree shall report any Social Security benefits received in such detail, including any and all income tax returns as may be required by the County Manager.

Upon service retirement on or after January 1, 2010, a member who has been both a General Member and a Public Safety Member of the System during their creditable service, shall have a retirement allowance payable monthly to him for life which shall be equal to the sum of the retirement allowance as calculated for Public Safety Members using their years of creditable service as a Public Safety Member plus the

retirement allowance as calculated for General Members using their years of creditable service as a General Member.

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nyhart

October 20, 2009

PERSONAL AND CONFIDENTIAL

Amy Rozier
Employee Services Division Chief
Arlington County Government
2100 Clarendon Blvd. Suite 511
Arlington, VA 22201

Dear Ms. Rozier:

Per your request, we have estimated the incremental contribution for an early retirement window described in your email dated October 9, 2009.

Our understanding of the major features of the early retirement window is:

1. Employees will be eligible for the early retirement window if they meet the following requirements:
    - Public Safety employees: age 50 with 5 years of service or 23 years of service
    - General employees: age plus years of service equal to 78 points

2. The early retirement window enhancement will grant an additional year of service for benefit purposes and an additional year of age to be used for the early retirement reduction factor calculation.

3. You have estimated the following number of employees who will be eligible for this benefit:
    - 127 Public Safety employees
    - 100 General employees

4. You expect that 5 to 10% of the eligible employees will accept the early retirement window offer.

Our analysis was based on estimating the impact of the early retirement window for a sample General and Public Safety participant.

We estimate the incremental annual contribution for the coming period to be roughly $100,000 - $200,000 (0.1% of total covered payroll of $224 million).

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Our determinations were based on the following actuarial assumptions shown in the July 1, 2008 actuarial valuation report prepared by Cheiron:

Interest rate	8.00%
Mortality	RP-2000 Employee Mortality projected with scale AA to 2005
COLA	3.75%
Salary increases	4.50%
Retirement rates	
Pre-enhancement	As shown in Cheiron's report
Post-enhancement	Employees were assumed to retire immediately upon accepting the early retirement window

Please let us know if you have questions or need anything else.

Sincerely,

Nyhart

Randy Gomez

Randy Gomez, FSA, EA, MAAA

/el
072-90

nyhart

October 20, 2009

PERSONAL AND CONFIDENTIAL

Amy Rozier
Employee Services Division Chief
Arlington County Government
2100 Clarendon Blvd. Suite 511
Arlington, VA 22201

Dear Ms. Rozier:

Per your request, we have estimated the incremental contribution for allowing certain employees a one-time election to remain in the pre-2009 plan. This group of employees could potentially earn higher pension benefits under the pre-2009 plan because of the inclusion of overtime and premium pay in the final average salary calculation.

You provided us with the list of 64 affected employees and their projected incremental pension increase should they make this election.

Our calculations used the following election assumptions:

- 50% election if the pension increase is at least $500 and retires in the next five years.
- 25% election if the pension increase is at least $1,000 and retires after the next five years.
- 15% election if the pension increase is at least $500 - $1,000 and retires after the next years
- 10% election if the employee could expect a pension increase of $200 - $500
- 0% election for all other scenarios
- Based on the above assumptions, we are projecting 12 of the 64 employees to make this election.

We estimate the incremental annual contribution for the coming period to be roughly $30,000 (based on the above election assumptions) or $60,000 (worst case – if all affected employees elect the option).

Please let us know if you have questions or need anything else.

Sincerely,

Nyhart

Randy Gomez

Randy Gomez, FSA, EA, MAAA

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October 23, 2009

PERSONAL AND CONFIDENTIAL

Amy Rozier
Employee Services Division Chief
Arlington County Government
2100 Clarendon Blvd. Suite 511
Arlington, VA 22201

Dear Ms. Rozier:

Per your request, we have reviewed the proposed changes described below and developed estimated cost impacts to the Arlington Retirement System.

1. Allow County Board members to buyback prior service with interest. This amendment currently impacts two Board members as follows:

   Employee #1

   The estimated increase in pension actuarial liability is $38,000 of which $8,100 would be funded by the employee through a lump sum payment. The lump sum payment is based on the value of missed employee contributions (4.0% per year) accumulated with interest (6.0% per year) to December 31, 2009.

   Employee #2

   The estimated increase in pension actuarial liability is $18,500 of which $5,000 would be funded by the employee through a lump sum payment. The lump sum payment is based on the value of missed employee contributions (4.0% per year) accumulated with interest (6.0% per year) to December 31, 2009.

2. Change the Code to blend the pension accrual rates for individuals who were covered under different pension formulas as a result of a change in their employment category. The current Code bases the employee's final benefit on their types of employment at the time of retirement. This change would affect two current employees.

   Based on the information provided for one affected employee, the increase in pension actuarial liability to the Retirement System would be $41,000 for this individual.

3. Allowing employees to opt out of the pension plan if the County provides them with another benefit per State Code.

   You indicated these opt-out employees would be provided a replacement pension plan using a defined contribution approach. The annual employer contributions to the individual accounts would be the same dollar amount contribution that the County would have contributed to the Retirement System if the employees had not opted out. Any accrued pension benefits at the time of the opt-out decision would continue to be a liability to the Retirement System and would not increase as the affected employees earn more service or receive pay increases. This arrangement would be cost neutral to the County.

The first two changes result in a nominal cost increase to the County thru increased future pension contributions. The third change would not increase or decrease the County's future contributions for the affected employees.

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Our determinations were based on the following actuarial assumptions

Interest rate	8.00%
Mortality	RP-2000 Healthy Annuitant Mortality Table projected with Scale AA to 2005
COLA	3.75%
Salary increases	4.50%; this assumption was used to estimate missing salary histories
Retirement	Employee was assumed to retire immediately upon reaching their unreduced retirement eligibility

Please let us know if you have questions about our calculations or need anything else.

Sincerely,

Nyhart

Randy Gomez

Randy Gomez, FSA, EA, MAAA

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